Administrative Review of Delton Kellogg Schools

per Public Act 109 of 2015

July 20, 2016

Introduction

On February 26, 2016, Delton Kellogg Schools received a letter from Paul Connors at the Michigan Department of Treasury declaring that "potential fiscal stress exists" for the District. This notification was in compliance with Public Act 109 of 2015 which indicates the potential for fiscal stress exists when a school district may have an operating deficit during the current school fiscal year or the following two school fiscal years or that the school district may be unable to meet its financial obligations while also satisfying its obligations or abilities to provide public educational services in a manner that complies with this act, the State School Aid Act of 1979, and applicable rules.

Under Public Act 109 of 2015, the district could choose to enter into a contract with an Intermediate School District to perform the administrative review or submit periodic financial reports to the Department of Treasury. On April 26, 2016, Delton Kellogg Schools entered into an "Agreement For Administrative Review of Financial Status" with Barry ISD to perform the administrative review. Public Act 109 of 2015 requires all those items identified under MCL 380.1219 be included in the administrative review and shall include but is not limited to all of the following:

i. An examination of financial practices, including at least an examination of the District's compliance with the Uniform Budgeting and Accounting Act, 1968 PA 2, MCL 141.421 to 141.440a, budget to actual expense report monitoring, and budget amendment practices after budget adoption.

ii. An examination of staffing and a comparison of staffing to other school districts, as applicable.

iii. An examination of wages and a comparison of wages to other school districts in the area, as applicable.

iv. An examination of benefit costs as a percentage of wages and a comparison of benefit costs as a percentage of wages to other school districts in the area, as applicable.

v. A school building student capacity utilization review.

vi. An examination of non-instructional costs by function and a comparison of those costs to other school districts, as applicable.

vii. A review of enrollment projection methods and history.

viii. An examination of deferred maintenance and capital investment needs. Capital investment needs include technology equipment and technology infrastructure needs.

ix. An examination of substitute costs, workers' compensation costs, unemployment compensation costs and forecasts, and a review of other insurance programs.

x. An examination of pupil transportation costs and routing.

xi. An examination of the current and future costs of existing bargaining agreements.

Executive Summary

The financial performance of the District has deteriorated the past few years, placing the District in jeopardy of state intervention. The fund balance as of June 30, 2011 was 13.95% of expenditures compared to a fund balance of .94% on June 30, 2015. The District projects a fund balance of 3.34% on June 30, 2016 and .64% on June 30, 2017.

Clearly the district has been impacted by declining enrollment. The District has lost nearly 600 students from 2005-06 to 2015-16, a decline of over 30%. The projection is to lose another 45 students in 2016-17. It's difficult for any school district to remain fiscally sound during periods of such decline.

It is imperative the District remain disciplined in its spending habits while working to regain the minimum 5% fund balance level. Because of the uncertainty surrounding enrollment, it is suggested the district target a fund balance range of 6-8% to allow for enrollment swings. During this time of fund balance recapture, it is suggested the District use extreme caution with compensation increases and staffing additions. Such caution, along with the implementation of the suggestions below, should allow the District to reach its fund balance target then gradually reward staff.

Recommendation

As required by the Michigan Department of Treasury, the administrative reviewer shall issue recommendation(s) to the District concerning those steps the District should consider taking to avoid a deficit. Below is the recommendation as well as a number of suggestions to successfully implement the recommendation. This recommendation and these suggestions were created by comparing a variety of costs, staffing, and operation metrics of the District to a peer group of thirteen districts from around the state with similar student population, free/reduced lunch %, foundation allowance, and square miles. All data used was audited, with the 2014-15 year being the most recent.

> **Recommendation:** the District shall restore the fund balance to a level equal to or greater than 5% of revenue (as defined by the Department of Treasury) by the end of the 2017-18 school year.
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> **Suggestions:**

- Instructional aides: employment data reflects the District has 16.20 instructional aides versus the peer average of 10.10. A thorough review should be conducted to determine if some of the instructional aide positions could be reduced to bring the District in-line with the peer average.
- Special education: data reflects the District spends $1,010 per pupil on special education while the peer average is $621 per pupil, a difference of $389 or 38.5%. In addition, from 2010-11 to 2014-15 special education classroom costs rose 7.36% while the number of special education FTE rose only 1.20%. It is noted that special education

costs can be difficult to trend as just one new student can substantially impact costs; however, the data reflects the District continually spends more than the peer average on special education services. A thorough review of special education services, staffing, and costs should be conducted to bring the District in-line with the peer group. The cost savings of the District spending equally to the peer group is around $500,000 per year.

- Athletics: data reflects the cost of athletics from 2010-11 to 2014-15 increased 6.37% while the District's student count declined 13.86%. During the same period athletic admission revenue declined 21.5% ($37,365 to $29,343). When comparing against the peer group the District spends nearly 10% more on athletics. The cost savings of the District spending equally to the peer group is around $37,000. A thorough review of athletic offerings, costs, and staffing should be conducted to bring the District in-line with the peer group.
- Pupil accounting: it is noted that the District has had issues with accurate student counts in the past, thus the need for vigilance in this area; however, the District spends over four times more than the peer districts in pupil accounting ($39,380 vs $8,479). A thorough review of pupil accounting should be conducted to ensure proper accounting practices are adhered to while at the same time bringing the cost closer to that of the peer districts.
- State aid payback: the District is working with the Department of Education on the payback of state aid dollars. The District believes the amount owed is $337,000 although no formal communication has been received from MDE on the exact amount or the timing of repayment. Once formal communication is received any money set aside in excess of the amount owed should be placed in fund balance.
- Food service program: over the past few years the District has reduced the indirect percentage charged to the food service program from the general fund because the food service program has run a deficit. The transfer has dropped from $66,425 in 2011-12 to $18,000 in 2014-15. The District should consider reinstating the maximum indirect cost rate allowed and thoroughly review the food service program operations to improve its financial performance.

Areas of Note

While the intention of the review is to issue recommendations as to how the District can eliminate the potential for fiscal stress, a number of areas were noted during the review where the District has performed well financially, often due to difficult decisions. Following are a number of such areas:

- Classroom Expenditures: from 2010-11 through 2014-15 student FTE declined 13.86%. The District made necessary adjustments to staffing levels as during that same period of time classroom related expenditures declined 13.59% and the total % of the budget remained unchanged at 49%.
- Office of the Principal Expenditures: during the same period of time noted above when student FTE declined 13.86%, the spending on the office of principal declined 15.31%.

- Business Services: during the same period of time noted above when student FTE declined 13.86%, business service salaries declined 19.15% and total business service expenditures declined 9.82%.
- Transportation Services: during the same period of time noted above when student FTE declined 13.86%, transportation service expenditures declined 11.37%. It is also noted that compared to the District's peer group, the District spends 7.26% less on transportation services while having the largest number of square miles (118 vs peer average of 86).

Conclusion

Delton Kellogg Schools has significant opportunities, as noted in the "suggestions" section above, to improve the financial strength of the district. In addition to all the work already being done by the District, financial improvement will require difficult decisions to allow the District to be removed from the fiscal stress designation under current law.

Submitted by:

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